

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05 SS-15
STR-07 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02 OMB-01
DOE-15 OIC-02 /126 W
-----074790 272115Z /14

R 271900Z APR 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 7272
INFO USMISSION GENEVA
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

LIMITED OFFICIAL USE SECTION 1 OF 3 BRASILIA 3388

GENEVA PASS USMTN
E.O. 11652: N/A
TAGS: ETRD, BR
SUBJ: BRAZIL-US SUB-GROUP ON TRADE: OVERVIEW OF BRAZILIAN TRADE
POLICY OBJECTIVES

REF: A) STATE 096974 B) BRASILIA 3014 C) GENEVA 5634
D) GENEVA 5805 E) GENEVA 5932 F) BRASILIA 3264

1. SUMMARY. EVIDENCE OF INCREASED INTEREST IN DISCUSSING
TRADE ISSUES, PARTICULARLY IN THE CONTEXT OF THE MTN, HAS
INCLUDED GEARING UP OF INTER-AGENCY WORKING GROUPS,
PARTICIPATION OF LARGE-SCALE BRAZILIAN DELEGATIONS IN
GATT/MTN TALKS, AND PUBLIC PRONOUNCEMENTS BY GOB OFFICIALS
ON BRAZILIAN TRADE POLICIES AND OBJECTIVES. DESPITE THIS
DEMONSTRATED EFFORT TO ENGAGE IN MORE MEANINGFUL DISCUSSIONS,
EMBASSY BELIEVES GOB REMAINS ESSENTIALLY COMMITTED TO
MAINTENANCE OF IMPORT RESTRICTIONS AND EXPORT SUBSIDIZATION
AND WILL RESIST LIBERALIZING CONCESSIONS AS LONG AS
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POSSIBLE. MEETING OF SUB-GROUP ON TRADE, MAY 8-9
SHOULD BE USED BY US TO KEEP PRESSURE ON GOB TO
ALTER THIS POSITION, BOTH ON ITS OWN MERITS AND IN
ORDER TO CONTRIBUTE TO SUCCESSFUL CONCLUSION OF
MTN. US SHOULD NOT COME INTO THESE BILATERAL
DISCUSSIONS WITH UNREALISTICALTY HIGH EXPECTATIONS
OF SIGNIFICANT PROGRESS ON SPECIFICS.

HOWEVER, MEETING IN BRASILIA PROVIDES OPPORTUNITY TO DRAW FORTH FINANCE MINISTER SIMONSEN AND MINISTER OF INDUSTRY AND COMMERCE CALMON DE SA; IN THE PAST THEY HAVE AGREED WITH THE IMPORTANCE OF BRAZIL'S MOVING FORWARD IN THE MTN. END SUMMARY.

2. FOLLOWING MESSAGE IS RESPONSE TO REQUEST FOR OVERVIEW ON OBJECTIVES OF BRAZILIAN TRADE POLICY TOWARD US (REF A). BEGINNING WITH TREASURY TEAM TALKS IN LATE FEBRUARY, THE GOB INDICATED ITS RENEWED INTENTION TO SEEK A MULTILATERAL EXPORT SUBSIDIES/ COUNTERVAILING DUTY CODE IN THE CONTEXT OF THE MTN. SUBSEQUENTLY, FINANCE MINISTER SIMONSEN EXPRESSED WILLINGNESS TO CONSIDER PHASING OUT OBJECTIONABLE EXPORT SUBSIDIES IN RETURN FOR A MULTILATERAL CODE INCLUDING AN INJURY CLAUSE (REF B). INTER-AGENCY WORK GROUPS ARE BELATEDLY ENGAGED IN INTENSIVE PREPARATIONS FOR ACTIVE PARTICIPATION IN SEVERAL MTN AREAS SUCH AS TARIFFS AND SAFEGUARDS. THE GOB WOULD HAVE PREFERRED TO DEVOTE THE MAY 8-9 MEETING OF THE SUB-GROUP ON TRADE EXCLUSIVELY TO MTN MATTERS. THIS INDICATES NOT ONLY THEIR RENEWED SERIOUSNESS TOWARD THE MTN, BUT ALSO REFLECTS THEIR DESIRE TO AVOID REHASHING BILATERAL ISSUES WHICH THE GOB CONSIDERS HAVE BECOME ALL TOO FAMILIAR.

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3. WE BELIEVE THE GOB REMAINS ESSENTIALLY CONVINCED THAT ITS KEY OBJECTIVES VIS-A-VIS THE US WILL NOT BE SERVED BY AN EARLY WILLINGNESS TO MAKE CONCESSIONS OR ENGAGE IN TRUE NEGOTIATIONS. THEY SEE THEIR OBJECTIVES AS MAXIMIZING EXPORTS OF BOTH AGRICULTURAL AND MANUFACTURED PRODUCTS THROUGH CONTINUED USE OF AN ARRAY OF EXPORT INCENTIVES AND MAINTENANCE OF BRAZIL'S OWN FLEXIBILITY TO MOUNT RESTRICTIVE BARRIERS TO IMPORTS FROM THE US AND OTHER COUNTRIES ON INFANT INDUSTRY AND IMPORT SUBSTITUTION GROUNDS. THESE OBJECTIVES--ALTHOUGH NOT RESTRICTED TO OR AIMED AT

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US-REFLECT NOT ONLY A DESIRE TO IMPROVE BRAZIL'S
BILATERAL TRADE BALANCE WITH THE US BUT ALSO THE GOB'S
DESIRE TO CONTINUE DIVERSIFYING ITS FOREIGN ECONOMIC
TIES AND REDUCING ITS ECONOMIC DEPENDENCE ON THE US.
BRAZIL IS SEEKING LINKS WITH OTHER ECONOMIES WHICH
MAY BE MORE COMPATIBLE THAN THE US.

4. IN SPECIFIC TERMS WE SEE THE GOB PRESSING FOR
THE FOLLOWING:

- BINDING US GSP CONCESSIONS
- SPECIAL AND DIFFERENTIAL TREATMENT WITHOUT
"DISCRIMINATION" AGAINST MIDDLE-INCOME LDC'S SUCH
AS BRAZIL
- DEFERRAL OF GRADUATION CONCEPT
- INJURY CLAUSE WITH INTERNATIONAL REVIEW MECHANISM
IN ANY SUBSIDIES/COUNTERVAILING DUTY (CVD) CODE
- EXTENSION OF TREASURY'S CVD WAIVER AUTHORITY

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UNDER TRADE ACT.
OTHER BILATERAL ITEMS ARE EXPECTED TO BE SUBMITTED
FOR THE AGENDA BY THE GOB. A LIKELY ITEM IS THE
STEEL TRIGGER PRICE MECHANISM.

4. IN REGARD TO AN EXPORT SUBSIDIES CODE, A MULTILATERAL
SOLUTION WOULD BE MUCH MORE PALATABLE IN DOMESTIC
POLITICAL TERMS TO THE GOB THAN MEASURES THAT MIGHT
APPEAR TO BE ADOPTED UNDER PRESSURE FROM THE US.

THE GOB IS STILL DISSATISFIED WITH THE SEQUENCE OF THE GENEVA NEGOTIATIONS AND INTENDS TO AVOID FIRM COMMITMENTS TO LIBERALIZE ITS TRADE POLICIES. AT THE SAME TIME, BRAZIL CONTINUES TO LOOK FOR SPECIFIC COMMITMENTS ON S AND D TREATMENT AS WELL AS FOR A CODE SETTING LIBERAL PARAMETERS FOR PERMISSIBLE EXPORT SUBSIDY PRACTICES. THE GOB SEEMS UNCONVINCED BY US ARGUMENTS (REITERATED BY TREASURY DEPUTY ASSISTANT SECRETARY HUFBAUER IN LATE FEBRUARY AND BY USMTN DELEGATION APRIL 13) THAT BRAZIL'S INTERESTS REST WITH THE WIDEST POSSIBLE APPLICATION OF MFN PRINCIPLES AND THAT, AS AN EMERGING INTERMEDIATE COUNTRY, IT SHOULD MAKE SOME SUBSTANTIAL RECIPROCAL OFFERS.

5. THE NEGATIVE GOB POSITION IN THE GATT ARTICLE VIII TALKS (REFS C, D, AND E) AND RECENT PUBLIC STATEMENTS ON EXPORT POLICIES BY GOB OFFICIALS SUGGEST THE CONTINUED PREDOMINANCE OF THE BELIEF THAT BRAZIL CAN MAINTAIN ITS CURRENT TRADE POLICIES AND YET AVOID RETALIATION BY TRADING PARTNERS THROUGH COSMETICS AND RHETORIC. ALTHOUGH THIS MENTALITY MAY NOT BE SHARED BY ALL GOB AUTHORITIES, IT IS WIDELY ENOUGH ACCEPTED TO HAVE EFFECTIVELY PRECLUDED TO DATE ANY SERIOUS CONSIDERATION OF LIBERALIZATION LIMITED OFFICIAL USE

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OF IMPORTS AND REDUCTION OF EXPORT INCENTIVES. MINISTER OF PLANNING VELLOSO RECENTLY ASSURED BRAZILIAN INDUSTRIALISTS OF CONTINUED IMPORT PROTECTION AND EXPORT SUPPORTS. SETTING FORTH THE GOB POSITION ON EXPORT SUBSIDIES CODE AT A RECENT CONFERENCE ON EXPORTS IN SAO PAULO, THE SECRETARY GENERAL OF THE MINISTRY OF FINANCE EMPHASIZED SUSTAINING EXPORT INCENTIVES AND GETTING AN INJURY CLAUSE; HE DID NOT MENTION ANY POSSIBILITY OF BRAZILIAN CONCESSIONS OR PHASING OUT OF SUBSIDIES.

6. THE PROPONENTS OF MAINTAINING THE STATUS QUO ARE IN A STRONG POSITION BECAUSE THIS IS THE LAST YEAR OF THE GEISEL ADMINISTRATION AND THE PRESIDENT HAS STATED HIS DETERMINATION TO AVOID ANY FUNDAMENTAL POLICY CHANGES IN 1978. THE DETERIORATION OF BRAZIL'S TRADE PROSPECTS IN 1978, DUE TO A DROUGHT AND LOWER COMMODITY PRICES AS WELL AS ITS HIGH EXTERNAL DEBT, ARE OTHER FACTORS. THE BRAZILIANS MAY WISH TO

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GENEVA PASS USMTN

SHOW SOME MOVEMENT IN THEIR ATTITUDES IN GENEVA BUT, EVEN RECOGNIZING THAT MTN COMMITMENTS WOULD BE IMPLEMENTED WITH CONSIDERABLE LAG, THEY WANT TO PUT OFF ANY REAL LIBERALIZATION ON THEIR PART FOR AS LONG AS POSSIBLE. IN THIS REGARD, A FOREIGN MINISTRY TRADE POLICY OFFICIAL HAS PUBLICLY STATED THAT THE GOB WILL NOT COMMIT ITSELF TO ANY MTN FINAL AGREEMENT UNTIL BOTH THE US AND THE EEC FORMALLY RATIFY THEM.

7. WHILE THE GOB ATTITUDE HAS BEEN DISAPPOINTING, WE SHOULD NOT DISCOUNT THE POSSIBILITY THAT THE KEY PLAYERS IN THE FOREIGN MINISTRY--AND, MORE LIKELY, FINANCE MINISTER SIMONSEN AND MINISTER OF INDUSTRY AND COMMERCE CALMON DE SA--MIGHT DECIDE THAT AT LEAST CERTAIN SPECIFIC MTN RESULTS ARE SUFFICIENTLY IN BRAZIL'S INTEREST TO JUSTIFY SELECTED GOB CONCESSIONS. WE SHOULD USE THE SUB-GROUP ON TRADE TO URGE THE GOB

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TO SPEED UP WORK ON ITS REQUEST-OFFER LISTS AND AN ITEM-BY-ITEM DISCUSSION OF US LISTS, AGREEING TO A TIME-TABLE FOR FURTHER BILATERALS. WE SHOULD ALSO

PRESS FOR CLARIFICATION OF GOB INTENTIONS TO MOVE ON
EXPORT SUBSIDIES AS WELL AS ITS POSITIONS ON OTHER
CODES. OUR EXPECTATIONS FOR PROGRESS ON SPECIFICS
MAY 8-9 SHOULD NOT BE HIGH, BUT THE CUMULATIVE
EFFECT OF OUR EFFORTS IN GENEVA, BRASILIA, AND
WASHINGTON MAY SUCCEED IN ELICITING MORE POSITIVE
AND CONSTRUCTIVE BRAZILIAN PARTICIPATION IN THE
CRUCIAL CLOSING WEEKS OF THE MTN.
JOHNSON

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: EXPORTS, TRADE, SUBSIDIES, NEGOTIATIONS, GOVERNMENT REACTIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 27 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BRASIL03388
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780180-0992
Format: TEL
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780412/aaaaajcn.tel
Line Count: 287
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 5f47bda6-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 STATE 96974, 78 BRASILIA 3014, 78 GENEVA 5634
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2834048
Secure: OPEN
Status: NATIVE
Subject: BRAZIL-US SUB-GROUP ON TRADE: OVERVIEW OF BRAZILIAN TRADE POLICY OBJECTIVES
TAGS: ETRD, BR, MTN, GATT
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/5f47bda6-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014